REVENUE ANALYSIS: AMENDMENTS TO FY2006 GENERAL FUND REVENUES

All revenues received by Chesterfield County are locally generated or come from state or federal sources. Chesterfield's financial position is affected by economic conditions at all three levels. Amendments to FY2006 revenue projections reflect the current state of the economy and assumptions about future economic conditions. The FY2006 amended general fund revenue budget is $604,648,600, an increase of $20,470,100, or 3.5 percent, from the FY2006 approved budget. Refer to Appendix B of this document for detailed information on FY2006 general fund revenue amendments.

ECONOMIC OVERVIEW

In 2004, low interest rates continued to support new construction and existing home sales in Chesterfield County. The median sales price for all residential properties sold in the county in 2004 was $179,600, an increase of 11.9 percent over the 2003 median value of $160,500. The county approved 2,496 single-family building permits in 2004, an increase of 11.6 percent over the 2003 total. Permit activity is expected to remain strong through 2005 with 2,600 single family building permits (including townhouses and condominiums) projected to be issued. Rising loan rates should contribute to a slower real estate market in the future. Local real estate experts saw an increase in demand for commercial property in the last half of 2004.

New and used vehicle registrations in the county increased 5.6 percent from 2003 to 2004. For 2004, the increase in car registrations in the Richmond-Petersburg metropolitan area was the biggest percentage increase of all the metro areas in Virginia (Chmura, p. 14). In 2005 and 2006, registrations in the metro area are expected to increase at a slightly slower pace than in 2004.

The county's retail sales increased 6.3 percent for calendar year 2004. In comparison, 2003 calendar year local retail sales increased 9.3 percent over 2002. For the fiscal year 2005, retail sales in the county are projected to increase 4.8 percent over FY2004. Despite solid growth the past few years, projected retail sales are tempered somewhat due to the uncertainty of the impact the opening of Route 288 will have on county retailers as this new road allows convenient access to retail establishments in neighboring jurisdictions.

All indicators point to a solid economy at the state level. Virginia's unemployment rate as of February 2005 was 3.6 percent, well below the national rate of 5.8 percent. In 2004, job growth in Virginia was among the fastest in the nation with a net increase of almost 80,000 jobs (Chmura, p. 10). Retail sales in the state increased 8.4 percent in 2004. State retail sales are projected to improve 7.3 percent in 2005 (Chmura, p. 14). Real estate markets continue to be strong in many regions of the state. In 2004, residential building permit activity in the state increased 6.7 percent (Chmura, p. 14).

The national economy continues to expand at a steady pace, but job growth continues to be inconsistent. Gross domestic product, a key indicator of economic health, grew at a solid 3.8 percent annual rate in the last quarter of 2004. The Federal Reserve districts reported sluggish to "somewhat stronger" consumer spending in January and February after stronger than expected consumer spending during the holiday season (The Beige Book). Residential real estate markets "remained strong across most of the nation" for the first couple of months of 2005 according to the Fed (The Beige Book). Employment at the national level continues to be a weak spot. The national unemployment rate continues to hover above 5.5 percent. Job creation in the first part of 2005 was weaker than originally anticipated by experts.

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LOCALLY GENERATED REVENUES

Property Taxes

Real Estate Taxes
Total real estate tax collections are budgeted at $248,348,500 in FY2006, an increase of $8,175,500, or 3.4 percent, from the FY2006 approved budget of $240,173,000. The increase can be attributed to the county's higher than projected 2005 total taxable assessed value and a revised projected 2006 assessed value. The county's taxable assessed value as of January 1, 2005 was $21,238,354,600, an increase of 11.8 percent from the 2004 value of $18,994,218,100. The FY2006 approved budget was based on a projected increase in assessed value of 8.8 percent for 2005 and a conservative 7.0 percent increase for 2006. The FY2006 amended budget assumes a 9.5 percent increase in the county's projected 2006 total taxable assessed value compared to the 2005 actual assessed value. The FY2006 estimate is based on the strong 2004 residential real estate market and an improving commercial market. The county's 2006 real estate assessments will be based on 2004 property sales.

The FY2006 amended budget reflects a $1.06 per $100 real property tax rate beginning January 1, 2006. Chesterfield County's tax year 2005 real property tax rate is $1.07. The $0.01 rate reduction is projected to lower real property collections by approximately $1,100,000 in FY2006 and have an impact of $2,200,000 and more per year over time.

Personal Property Taxes
Total personal property collections, which do not include Personal Property Tax Relief payments from the state, are budgeted at $39,723,100. This is a change of ($1,116,200), or -2.7 percent, from the FY2006 approved budget of $40,839,300. The majority of the decrease is due to lower than expected used car assessed values based on a national valuation change. The FY2006 amended budget reflects a 3.7 percent increase over the FY2005 revised budget.

In tax year 2005, a separate classification of tangible personal property was established for motor vehicles which are specially equipped to provide transportation for physically handicapped individuals. The tax rate for this new classification is $0.01 per $100. These specially equipped vehicles were subject to the $3.60 per $100 personal property tax rate in prior years.

As of tax year 2005, if a volunteer rescue squad or fire department member and an auxiliary member are members of the same household, the household is allowed only one special motor vehicle classification that qualifies for a personal property tax rate of $0.96 per $100 instead of the $3.60 per $100 rate. Beginning in tax year 2006, households of this type are allowed no more than two special classifications.

Machinery and Tools Tax
Machinery and tools tax collections are budgeted at $4,200,000, a change of ($562,900), or -11.8 percent, from the FY2006 approved budget of $4,762,900. In addition to slower than expected annual growth in this revenue source, a large part of the decrease is due to approximately $275 million in machinery and tools assessments that have been in dispute since 2003. Adjusting for the $1.00 per $100 machinery and tool tax rate, this equates to approximately $275,000 in collections each year. The county cannot collect taxes on disputed machinery and tool assessments until the appeals process is completed.

Utility Taxes

Cellular Phone Tax
Cellular phone tax revenue is increased to $5,011,300, a change of $401,300, or 8.7 percent, from the FY2006 approved budget of $4,610,000. Cellular phones continue to increase in popularity, with approximately 60 percent of the population now owning one. Future cell phone tax revenue collections are not expected to increase as fast as in past years. Collections are projected to be around $4,900,000 for FY2005.

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The FY2006 budgets for the cellular phone tax, telephone utility tax, Emergency 911 landline tax, and the state's Emergency 911 wireless fee are not yet affected by state legislation first introduced in 2004. The proposal called for a uniform 5.0 percent tax for telecommunication related utility taxes and a uniform $0.75 fee for the 911 taxes beginning in FY2006. The legislation was not passed into law during the 2005 General Assembly session, but may be considered for passage in the future.

Other Local Taxes

Local Sales Tax

The local sales tax revenue is budgeted at $35,803,600, an $830,100, or 2.4 percent, increase from the FY2006 approved budget of $34,973,500. The change is based on an upward revision in projected collections for FY2005 and conservative retail sales growth in future years.

Business Professional and Occupational License (BPOL) Tax

Two significant changes were made to the BPOL rate structure in 2005. The annual BPOL tax liability for financial services businesses was capped at $90,000. Also, the Board of Supervisors implemented a two-year plan to amend the rate for the professional, financial and real estate services categories from $0.53 to $0.32 per $100 in 2005 and from $0.32 to $0.20 in 2006. These changes reflect the Board's strategy to retain and recruit businesses by keeping BPOL revenue capped at the FY99 level of $15,656,600. Since 1999, the BPOL rate structure has been reviewed annually in order to keep BPOL revenue at this level.

Local Recordation Tax

The budget for local recordation tax collections is increased $750,000 to $3,500,000, an increase of 27.3 percent from the FY2006 approved budget of $2,750,000. The county's recordation tax rate increased from $0.05 to $0.083 per $100 in September 2004 as a result of legislation enacted during the 2004 General Assembly session. Due to the state budget impasse in 2004, the session did not recess in time for the county to include state changes in the FY2005-2006 biennial budget.

Motor Vehicle Licenses

Beginning in tax year 2006, active auxiliary members of volunteer rescue squads and volunteer fire departments are exempt from paying the county's vehicle license tax in order to receive a county decal. Only one vehicle owned by each active auxiliary member may qualify for the exemption. Prior to the change, active auxiliary members of volunteer rescue squads and volunteer fire departments were not eligible for this exemption.

Use of Money and Property

Interest on Investments

Revenue generated by interest on investments is budgeted at $1,400,000. This is a change of ($600,000), or –30.0 percent, from the FY2006 approved budget of $2,000,000. Short-term investment rates doubled in 2004, but were still yielding below 3.0 percent. The FY2006 approved budget for interest on investments anticipated short-term investment rates would be higher. Consequently, the FY2006 budget has been revised downward. Generally, the additional revenue earned from an increase in rates does not materialize for six to twelve months.

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FEE CHANGES

The FY2006 budget includes the following fee increases to cover the cost of services:

Department of Utilities

Increases in water and wastewater base charges and service fees for line installations, bacteriological tests and portable water meter deposits are included in the FY2006 amended budget. The water and wastewater base charge increases are projected to generate an additional $1,207,000 and $1,490,000, respectively. Under the changes, a typical bi-monthly water bill will increase $2.58 ($1.29 monthly); a typical bi-monthly wastewater bill will increase $3.00 ($1.50 monthly); and a typical combined water/wastewater bill will increase $3.54 ($1.77 monthly). Even with these changes, the county's bills will remain among the lowest in the region.

The adjustments to the water and wastewater base charges and the service fees for installations, testing and the meter deposit reflect the increased costs to provide the services. The charges and fees were last adjusted in 1992. The additional revenue will be used to offset increased operating and capital costs in the Department of Utilities.

Waste and Resource Recovery

The first year of the biennial budget provided for a two-year increase in the landfill gate fee. The rate was increased from $5 to $7 for FY2005 and was proposed to increase to $8 in FY2006. The Board of Supervisors approved the increase to $8 with the adoption of the FY2006 amended budget. The increase to $8 is expected to generate an additional $246,000 in FY2006, which is $94,000 less than the $340,000 originally anticipated. The FY2006 budget has been revised downward to reflect this change. The customer value card program has proven to be the more attractive alternative thus negatively impacting gate fee revenue. Through the first half of FY2005, the number of residents paying the gate fee has decreased and the tonnage at transfer stations has increased compared to prior years.

Sources:

Chmura, Christine, ed. Virginia Economic Trends, 1st Quarter 2005 Report, Vol. 7, Number 1. (2005)

The Beige Book, Summary of Commentary on Current Economic Conditions, March 9, 2005, the Federal Reserve Board. http://www.federalreserve.gov/fomc/beigebook/2005/default.htm